

REPORT OF EXAMINATION
OF THE
21ST CENTURY INSURANCE COMPANY

AS OF
DECEMBER 31, 2009

Participating State
and Zone:

California

Filed June 28, 2011

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Los Angeles, California
May 6, 2011

Honorable Joseph Torti, III
Chairman of the NAIC Financial
Condition Subcommittee
Superintendent of Business Regulation
Division of Insurance
Cranston, Rhode Island

Honorable Linda S. Hall
Secretary, Zone IV-Western
Director of Insurance
Alaska Division of Insurance
Anchorage, Alaska

Honorable Dave Jones
Insurance Commissioner
California Department of Insurance
Sacramento, California

Dear Chairman, Secretary, and Commissioner:

Pursuant to your instructions, an examination was made of the

21ST CENTURY INSURANCE COMPANY

(hereinafter also referred to as the Company) at the primary location of its books and records and its main administrative office, 3 Beaver Valley Road, Wilmington, Delaware 19803. The Company's statutory home office is located at 6301 Owensmouth Avenue, Woodland Hills, California 91367.

SCOPE OF EXAMINATION

The previous examination of the Company was made as of December 31, 2007. This examination covers the period from January 1, 2008 through December 31, 2009. The examination was made pursuant to the National Association of Insurance Commissioners' plan of examination. The examination included a review of the Company's practices and procedures, an examination of management records, tests and analyses of detailed transactions within the examination period, and an evaluation of the assets and a determination of liabilities as of December 31, 2009, as deemed necessary under the circumstances.

The examination was conducted concurrently with the examination of the Company's California affiliates, 21st Century Superior Insurance Company and 21st Century Casualty Company and the other insurance companies in the 21st Century Personal Auto Group, as depicted in the organizational chart in the Management and Control section of this report.

In addition to those items specifically commented upon in this report, other phases of the Company's operations were reviewed including the following areas that require no further comment: corporate records; fidelity bonds and other insurance; officers', employees' and agents' welfare and pension plans; growth of company; loss experience; accounts and records; business in force by states; and sales and advertising.

COMPANY HISTORY

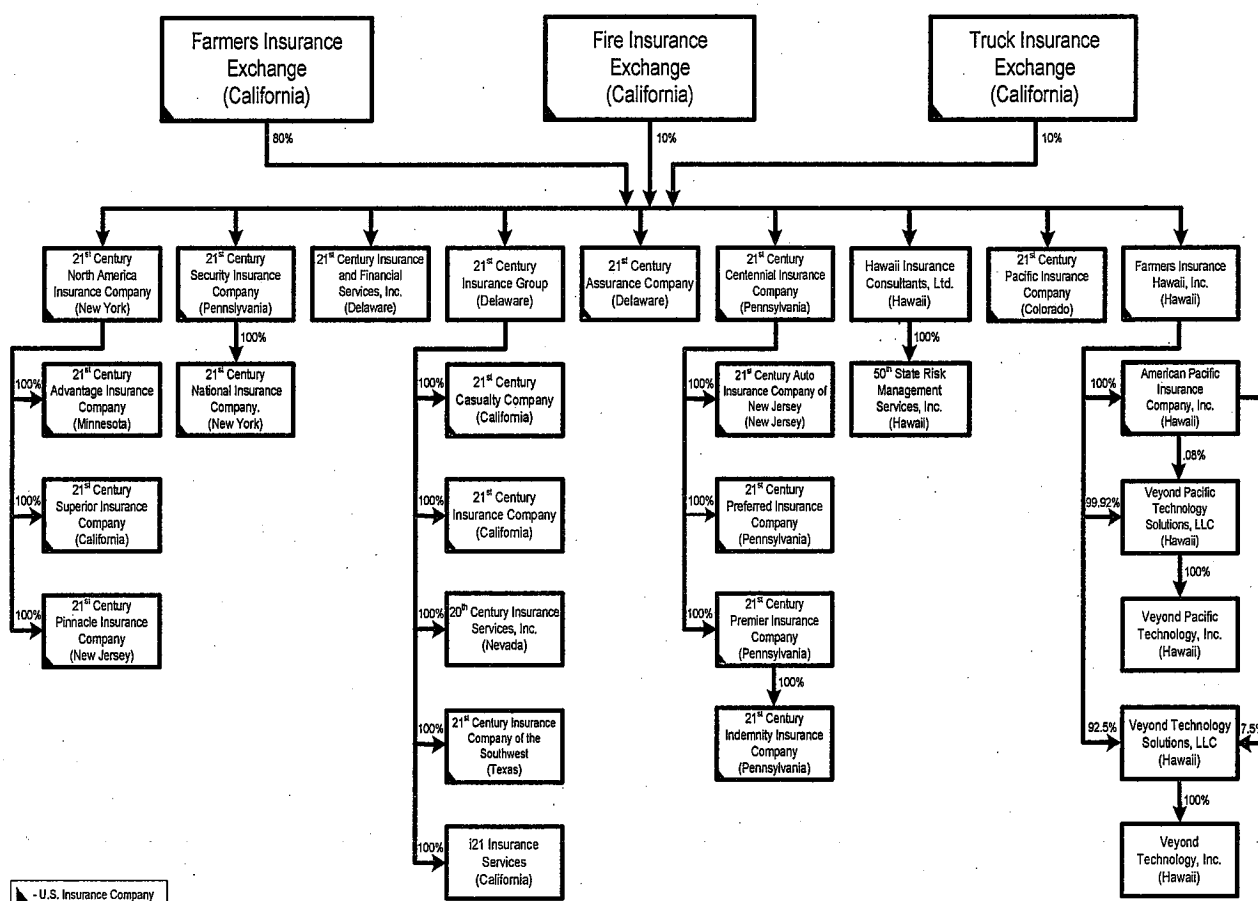
On September 27, 2007, American International Group, Inc. (AIG), indirectly purchased the remaining 39.2% shares of the Company's immediate parent, 21st Century Insurance Group (21st CIG). Prior to the purchase, AIG indirectly owned approximately 60.8% of the outstanding shares of 21st CIG. As a result of the transaction, 21st CIG became an indirect wholly-owned subsidiary of AIG, a holding company incorporated in the State of Delaware.

On July 1, 2009, Farmers Group, Inc. (FGI), a Nevada corporation that is an indirect wholly-owned subsidiary of Zurich Financial Services, Ltd., purchased the 21st Century Personal Auto Group (21st Century PAG) companies from AIG which included the Company's parent, 21st CIG. The purchase of the 21st Century PAG companies was effected through the purchase of 100% of the shares of various insurance and non-insurance companies directly or indirectly owned by AIG that comprised the 21st Century PAG. Subsequently on July 1, 2009, FGI sold 80% of the shares of the 21st Century PAG entities to Farmers Insurance Exchange (FIE), and 10% of the shares each to Fire Insurance Exchange (Fire), and Truck Insurance Exchange (Truck). FGI, doing business as Farmers Underwriters Association, is the Attorney-in-Fact for FIE. Fire Underwriters Association is Attorney-in-Fact for Fire. Truck Underwriters Association is the Attorney-in-Fact for Truck. FGI

owns 100% of Fire Underwriters Association and Truck Underwriters Association. The California Department of Insurance approved FGI's acquisition of the 21st Century PAG companies from AIG effective July 1, 2009.

MANAGEMENT AND CONTROL

The following abridged organizational chart, which is limited to the Company's parent, along with its subsidiaries, depicts the Company's relationship within the holding company system:



As of December 31, 2009, management of the Company was vested in an eleven member board of directors elected annually. A listing of the members of the board and principal officers serving on December 31, 2009 follows:

Directors

Name and Residence

Principal Business Affiliation

Karen Moller Alejnikov
Valley Forge, Pennsylvania

Executive Vice President - Operations
21st Century Insurance and Financial Services, Inc.

Jeffrey John Dailey
Los Angeles, California

Executive Vice President – Personal Lines
Farmers Group, Inc

Anthony James DeSantis
Centerville, Delaware

Chairman of the Board, President, and Chief
Executive Officer
21st Century Insurance and Financial Services, Inc.

William Donald Loucks, Jr.
Glen Mills, Pennsylvania

Executive Vice President and Chief Operating
Officer
21st Century Insurance and Financial Services, Inc.

Ronald Gregory Myhan
Los Angeles, California

Executive Vice President – Finance
Farmers Insurance Exchange

Glenn Alan Pfeil
Wilmington, Delaware

Chief Financial Officer, Executive Vice
President, and Treasurer
21st Century Insurance and Financial Services, Inc.

James Anthony Porcari, III
Alpharetta, Georgia

Senior Vice President – Claims
21st Century Insurance and Financial Services, Inc.

Donald Walter Procopio
Aldan, Pennsylvania

Senior Vice President and Chief Actuary
21st Century Insurance and Financial Services, Inc.

Mhayse Gokul Samalya
Topanga, California

Executive Vice President – Commercial Lines
Farmers Group, Inc.

Anthony William Tomich
Thousand Oaks, California

Vice President – Finance
21st Century Insurance and Financial Services, Inc.

Name and ResidencePrincipal Business Affiliation

F. Robert Woudstra
Los Angeles, California

Chief Executive Officer
Farmers Group, Inc.

Principal OfficersNameTitle

Anthony James DeSantis
Glenn Alan Pfeil

President and Chief Executive Officer
Executive Vice President, Chief Financial Officer,
and Treasurer

Esta Lee Cain

Senior Vice President, General Counsel, and
Secretary

Donald Walter Procopio
Karen Moller Alejnikov
James Anthony Porcari, III
William Donald Loucks, Jr.

Senior Vice President and Chief Actuary
Senior Vice President
Senior Vice President
Senior Vice President

Management Agreements

Managing General Agent Agreement: Effective January 1, 2008, the Company was a party to a managing general agent agreement with 21st Century Insurance and Financial Services, Inc., formerly AIG Marketing, Inc. The agreement was terminated, effective June 30, 2009. Any transactions between 21st Century Insurance and Financial Services (21st CIFS) and the 21st Century Personal Auto Group (21st Century PAG) companies from July 1, 2009 through December 31, 2009 were solely related to integration and restructuring activities resulting from the acquisition of the 21st Century PAG companies by Farmers Insurance Exchange (FIE), Fire Insurance Exchange (Fire), and Truck Insurance Exchange (Truck). No services were provided by 21st CIFS subsequent to the July 1, 2009 acquisition by FIE, Fire and Truck. For 2008 and 2009, payments made by the Company to 21st CIFS totaled \$214,712,481 and \$93,218,908, respectively.

Tax Sharing Agreement: Prior to July 1, 2009, the Company had a written tax sharing agreement with its former ultimate parent, American International Group, Inc. (AIG). The agreement provided

that AIG will not charge the Company a greater portion of the consolidated tax liability than would have been paid by the Company if it had filed a separate federal income tax return. In addition, the agreement provided that the Company will be reimbursed by AIG for tax benefits relating to any net losses or any tax credits of the Company utilized in filing the consolidated return.

Effective July 1, 2009, the Company and its affiliates participate in a tax sharing agreement with FIE.

FIE receives from its affiliates the tax they would pay if they had filed separate returns and pays to the affiliates amounts for the tax benefits realized by the consolidated group through the utilization of their net losses. Intercompany tax balances are settled monthly based on estimates with the final settlement made annually within 30 days after the return has been filed.

The tax sharing agreement was filed via a Form D filing with all the 21st Century PAG domiciliary state insurance departments on September 23, 2010 with the exception of California. The CDI will accept the verifications of filings from the other states along with a copy of the tax sharing agreement from the Company.

TERRITORY AND PLAN OF OPERATION

As of December 31, 2009, the Company was licensed to write property and casualty lines of business in the following 42 states and the District of Columbia:

Alabama	Indiana	Nebraska	South Dakota
Alaska	Iowa	Nevada	Tennessee
Arkansas	Kansas	New Jersey	Texas
California	Kentucky	New York	Utah
Colorado	Maine	North Carolina	Vermont
Connecticut	Maryland	North Dakota	Virginia
Delaware	Michigan	Ohio	Washington
Florida	Minnesota	Oklahoma	West Virginia
Georgia	Mississippi	Oregon	Wisconsin
Idaho	Missouri	Pennsylvania	
Illinois	Montana	South Carolina	

In 2009, the Company wrote \$840.2 million of direct premiums. Of the direct premiums written, \$756.3 million (90.0%) was written in California, \$47.1 million (5.6%) was written in New Jersey, and \$36.8 million (4.4%) was written in the remaining states. The Company is also an accredited reinsurer in the State of Arizona.

The principal lines of business written are private passenger auto liability and auto physical damage, which amounted to 57.4% and 42.6%, respectively, of the Company's total premiums written. The Company's business is written through direct marketing and internet sales.

REINSURANCE

Assumed

The Company has reinsurance assumed from the intercompany pool only.

Ceded

Except for the intercompany pooling agreement, the Company does not have any principal ceded reinsurance treaties in force as of December 31, 2009.

Intercompany Reinsurance Pooling Agreement

Effective July 1, 2009, the Company is a participant in an amended and restated Intercompany Reinsurance Pooling Agreement (pooling agreement). The participants and their participation percentage in the pool are as follows:

<u>Pool Participant</u>	<u>Pool Percentage</u>
21 st Century North America Insurance Company	23.00%
21 st Century Centennial Insurance Company	20.00%
21 st Century Insurance Company	20.00%
21 st Century Premier Insurance Company	10.00%
21 st Century Security Insurance Company	8.00%
Farmers Insurance Hawaii, Inc.	4.00%
21 st Century Assurance Company	2.00%
21 st Century Indemnity Insurance Company	2.00%
21 st Century Pacific Insurance Company	2.00%
21 st Century Preferred Insurance Company	2.00%
21 st Century Pinnacle Insurance Company	1.75%
21 st Century Auto Insurance Company of New Jersey	1.50%
21 st Century Advantage Insurance Company	1.00%
21 st Century National Insurance Company	1.00%
21 st Century Superior Insurance Company	1.00%
American Pacific Insurance Company, Inc.	0.50%
21 st Century Casualty Company	0.25%
21 st Century Insurance Company of the Southwest	0.00%

Under the terms of this pooling agreement, 100% of the net business written by each of the participating companies is ceded to 21st Century North America Insurance Company (21st CNAIC). The liabilities related to losses with a date of loss prior to July 1, 2009 are ceded back to the pool members by 21st CNAIC based on each pool member's participation percentage.

Effective July 1, 2009, under the terms of a 100% quota share reinsurance agreement between Farmers Insurance Exchange (FIE), one of the Company's upstream parents, and 21st CNAIC, 21st CNAIC cedes 100% of the net liability for losses with a date of loss on and after July 1, 2009 to FIE.

FIE provides, or arranges for the provision of, management and administrative services at cost for the 21st Century PAG business assumed from 21st CNAIC. This agreement was approved by the California Department of Insurance on June 17, 2009.

As of December 31, 2009, reinsurance recoverables for all ceded reinsurance totaled \$605.7 million, or 75.5% of surplus as regards policyholders. Ceded reinsurance recoverables from affiliated admitted reinsurers were 99.4% of the total recoverables.

FINANCIAL STATEMENTS

The financial statements prepared for this examination report include:

Statement of Financial Condition as of December 31, 2009

Underwriting and Investment Exhibit for the Year Ended December 31, 2009

Reconciliation of Surplus as Regards Policyholders
from December 31, 2007 through December 31, 2009

Statement of Financial Condition
as of December 31, 2009

<u>Assets</u>	<u>Ledger and Nonledger Assets</u>	<u>Assets Not Admitted</u>	<u>Net Admitted Assets</u>	<u>Note</u>
Bonds	\$ 739,481,605	\$	\$ 739,481,605	
Real estate	11,926,275		11,926,275	
Cash and short-term investments	86,775,893		86,775,893	
Other invested assets	29,398,400		29,398,400	
Receivable for securities	421,733		421,733	
Investment income due and accrued	9,558,829		9,558,829	
Amounts recoverable from reinsurers	16,519		16,519	
Net deferred tax asset	50,146,102	43,908,068	6,238,034	
Receivable from parent, subsidiaries and affiliates	187,745,995		187,745,995	
Aggregate write-ins for other than invested assets	<u>823,921</u>		<u>823,921</u>	
Total assets	<u>\$ 1,116,295,272</u>	<u>\$ 43,908,068</u>	<u>\$ 1,072,387,204</u>	
<u>Liabilities, Surplus and Other Funds</u>				
Losses			\$ 182,388,517	(1)
Reinsurance payable on paid losses and loss adjustment expenses			14,187,431	
Loss adjustment expenses			54,709,073	(1)
Current federal income taxes			4,058,122	
Ceded reinsurance premiums payable			(695,049)	
Payable to parent, subsidiaries and affiliates			7,289,905	
Payable for securities			153,248	
Aggregate write-ins for liabilities			<u>8,263,291</u>	
Total liabilities			270,354,538	
Common capital stock		\$ 3,000,000		
Gross paid-in and contributed surplus		450,822,625		
Unassigned funds (surplus)		<u>348,210,041</u>		
Surplus as regards policyholders			<u>802,032,666</u>	
Total liabilities, surplus and other funds			<u>\$ 1,072,387,204</u>	

Underwriting and Investment Exhibit
for the Year Ended December 31, 2009

Statement of Income

Underwriting Income

Premiums earned		\$ 189,706,793
Deductions:		
Losses incurred	\$ 108,412,155	
Loss expense incurred	23,674,676	
Other underwriting expenses incurred	<u>24,771,873</u>	
Total underwriting deductions		<u>156,858,704</u>
Net underwriting gain		32,848,089

Investment Income

Net investment income earned	\$ 33,646,044	
Net realized capital gains	<u>12,556,081</u>	
Net investment gain		46,202,125

Other Income

Net loss from agents' balances charged off	\$ (1,548,624)	
Aggregate write ins for miscellaneous income	<u>3,938,771</u>	
Total other income		<u>2,390,147</u>
Net income before federal income taxes		81,440,361
Federal income taxes incurred		<u>12,981,484</u>
Net income		<u>\$ 68,458,877</u>

Capital and Surplus Account

Surplus as regards policyholders, December 31, 2008		\$ 746,574,722
Net income	\$ 68,458,877	
Net unrealized capital losses	(6,373,904)	
Change in net deferred income tax	387,794	
Change in nonadmitted assets	(11,287,440)	
Net changes in accounting principles and for write in losses in surplus	<u>4,272,617</u>	
Change in surplus as regards policyholders		<u>55,457,944</u>
Surplus as regards policyholders, December 31, 2009		<u>\$ 802,032,666</u>

Reconciliation of Surplus as Regards Policyholders
from December 31, 2007 through December 31, 2009

Surplus as regards policyholders, December 31, 2007, per Examination			\$ 662,655,494
	<u>Gain in</u> <u>Surplus</u>	<u>Loss in</u> <u>Surplus</u>	
Net income	\$ 107,318,944	\$	
Net unrealized capital losses		8,209,554	
Change in net deferred tax		18,555,021	
Change in nonadmitted assets	54,569,514		
Changes in accounting principles	4,840,543		
Surplus adjustments: Paid-in	2,009,072		
Aggregate write-ins for losses in surplus		<u>2,596,326</u>	
Totals	<u>\$ 168,738,073</u>	<u>\$ 29,360,901</u>	
Net increase in surplus as regards policyholders for the examination			<u>139,377,172</u>
Surplus as regards policyholders, December 31, 2009, per Examination			<u>\$ 802,032,666</u>

COMMENTS ON FINANCIAL STATEMENT ITEMS

(1) Losses and Loss Adjustment Expenses

The Company was directed by the California Department of Insurance (CDI), under CIC Section 733(g) to retain the independent actuarial firm of American Actuarial Consulting Group (AACG) for the purpose of assisting this examination in determining the reasonableness of the Company's loss and loss adjustment expense reserves. Based on the analysis by AACG and the review of their work by a Casualty Actuary from the CDI, the Company's December 31, 2009 reserves for losses and loss adjustment expenses were determined to be within a reasonable range of estimate, and have been accepted for the purpose of this examination.

SUMMARY OF COMMENTS AND RECOMMENDATIONS

Current Report of Examination

None.

Previous Report of Examination

Corporate Records (Page 8): It was recommended that the board of directors comply with its bylaws. The Company has complied with this recommendation.

Comments on Financial Statement Items - Receivable from Parent, Subsidiaries and Affiliates and Payable to Parent, Subsidiaries and Affiliates (Page 17): It was recommended that the Company comply with Statement of Statutory Accounting Principles No. 64, paragraph 2(a). The Company has complied with this recommendation.

ACKNOWLEDGEMENT

The courtesy and cooperation extended by the Company's officers and employees during the course of this examination are hereby acknowledged.

Respectfully submitted,

_____/S/_____
Gint Prismantas, CFE
Examiner-In-Charge
Senior Insurance Examiner
Department of Insurance
State of California